AD-A119 207 GENERAL ACCOUNTING OFFICE WASHINGTON DC PROCUREMENT --ETC F/G 15/5
IMPROVEMENTS NEEDED IN DEFENSE'S SYSTEM FOR CONTROLLING MATERIA--ETC(U)
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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PROCUREMENT, LOGISTICS AND READINESS DIVISION

JUNE 10, 1982

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The Honorable Caspar W. Weinberger
The Secretary of Defense

Attention: Director, GAO Affairs

Dear Mr. Secretary:

Subject: Improvements Needed in Defense's System for Controlling Material Shipments to Defense Logistics Agency Depots and Customers (PLRD-82-81)

We have reviewed the Department of Defense's practices and procedures for controlling material shipments to Defense Logistics Agency (DLA) depots and shipments from DLA distribution activities and vendors to military customers. We were primarily interested in whether (1) Defense customers were receiving proper shipments of requisitioned material and (2) the Government received what it paid for when fast payment procedures were used.

We found that policies and procedures followed at some supply centers do not ensure the receipt of materials requisitioned by the military services from DLA and those purchased by DLA from vendor/contractor. This condition has resulted in instances where the Government was not receiving material for which it had paid and had forfeited its recovery rights, customers were being charged for material they did not receive, and overdue material shipments costing millions of dollars were either written off as inventory losses or remained on the books as items due in for a considerable period of time. Details of our review are discussed in enclosure I. We recommend that you:

--Require the Director of DLA to emphasize the importance of controlling material shipments and ensuring that the Government receives what it pays for by

--strengthening processing controls,

--following up on reported deficiencies and assessing problem areas, and

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--establishing a viable review system for assessing the overall results of material discrepancies and for effecting corrective action.

--Direct the Secretaries of the Army, Navy, and Air Force to emphasize to the DLA military customers the need to consistently follow established procedures for identifying, processing, and reporting shipping discrepancies, including container material shortages and overdue shipments.

We discussed this report with Defense officials and they generally agreed with our conclusions and recommendations. They pointed out some areas in which they believed clarification was needed and, where appropriate, our report was changed to reflect these positions.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Administrator, Office of Federal Procurement Policy; and the Chairmen of the above-mentioned committees.

Sincerely yours,

Donald J. Horan
Director

DEFENSE'S SYSTEM FOR HANDLING MATERIAL SHIPPING DISCREPANCIES NEEDS IMPROVEMENTS

BACKGROUND

The Defense Logistics Agency (DLA) is a worldwide Defense organization that was established to provide centralized management of assigned material, thereby eliminating duplicate efforts by Federal agencies in managing wholesale level stocks. DLA is responsible for acquiring, storing, and distributing almost 2 million common-type consumable items used by the military services and other Federal agencies. DLA's supply management functions are performed at six supply centers, six depots, and three military operated distribution activities.

DLA operates a defense stock fund to finance the acquisition of inventory and replenishes the fund by selling its inventories to user activities. It annually fills over 19 million customer orders. During fiscal year 1981, DLA sold approximately $17.3 billion of items and awarded procurement contracts valued at about $18.0 billion, and its inventories were valued at about $9.1 billion at year's end. For the three supply centers visited during our review, DLA reported the following statistical information for fiscal year 1981:

	Net sales	Total inventory	Contracts awarded	No. of requisitions
	(millions)			
Defense Personnel Support Center (DPSC)	$2,585.0	$1,870.9	$2,834.5	11,064,000
Defense General Supply Center (DGSC)	603.4	522.2	585.1	2,668,000
Defense Industrial Supply Center (DISC)	444.5	520.6	493.2	5,900,000

Procedures for filling requisitions

When a DLA customer submits a requisition, demand data is recorded and accumulated in the national inventory record of the supply center responsible for managing the item. Supply centers fill customer requisitions either from stocks on hand or by obtaining requested items from vendors.

If onhand stocks are used, a supply center issues a material release order directing a DLA distribution activity 1/ to ship a specified quantity of an item to the customer. This action reduces the quantity of onhand stocks at the storage point as recorded in the center's inventory record. The distribution activity then advises the center when shipment is made and provides shipment status to the customer, indicating the item and quantity shipped, mode of transportation, date of shipment, and so on. After the center issues a material release order, it bills the customer for the value of the shipment.

A supply center may also fill a requisition by instructing a vendor to ship supplies directly to the customer. When a vendor advises the center that a direct shipment has been made, the center provides shipment status information to the customer and bills the customer for the value of the shipment. Requisitions filled in this fashion are referred to as direct-vendor-deliveries, many of which are paid for under the "fast-pay" and certificate of conformance (COC) procedures. These procedures are explained more fully on pages 5 and 6, but, in essence, they mean that vendors dors are paid on the basis of an invoice without any evidence that items are received.

Controls to ensure receipt of items shipped

DLA customers are not required to provide the supply centers or the distribution activities with confirmation that shipped material was received and that the shipment was acceptable. Customers are required to notify DLA only if they do not get expected shipments or if they receive discrepant shipments. If no customer complaints are received, supply centers assume that the requested material was received in good condition. This is in contrast to material being shipped from vendors to DLA depots. Depots are required to report receipt of material to supply centers. If within a set time interval after the reported shipment date centers have not been notified of receipt, the centers are responsible for following up on items due in.

DLA regulations require customers and depots to report discrepancies in material shipments to the supply center managing that item. Shipping discrepancies involve variations in the quantity or condition of material with that authorized for shipment, or shipments that are long overdue. The purpose of a discrepancy report is to provide DLA with information to determine the cause of the discrepancy, initiate corrective action, and prevent recurrence. Also, these reports are a basis for DLA recovering from vendors for discrepant shipments already paid for under fast pay procedures.

1/A DLA distribution activity is either a DLA depot or a military service depot at which DLA-owned stocks are stored.

During fiscal year 1980, DGSC received approximately 23,700 discrepancy reports. Although complete data was not available on the number of discrepancy reports received at DPSC and DISC during the year, we estimate that DPSC received 61,000 and DISC received 15,300.

Fast payment procedures

Fast pay procedures basically provide that vendors can be paid for goods shipped to Defense customers without evidence of receipt. Payment is authorized based on the vendor's certification on the invoice that the material was shipped. These procedures were adopted to expedite payments to vendors. Fast pay may be used for purchases of $10,000 and under and for purchases without a dollar limit for certain types of subsistence and medical items.

Vendors agree that the Government has the right of redress for any discrepant shipments, provided they are notified within 90 days from the date of shipment. If vendors are not advised of discrepant shipments within that period, the Government cannot recover from them.

DLA is the most significant Defense user of fast pay procedures. Its supply centers made small purchases of $10,000 and under totaling about $795 million through August of fiscal year 1981. DLA estimates that payments for 80 percent of these purchases, or $636 million, were made using fast pay procedures. Additionally, DPSC annually buys about $270 million in brand-name commissary resale subsistence and about $30 million in medical supplies for direct shipment overseas. Fast payment procedures are used to pay the vendors supplying these goods.

In an earlier report on the Government's bill-paying performance, 1/ we noted that fast payment procedures can help agencies pay bills on time. The report cautioned, however, that agencies using such procedures need to have internal controls to ensure they receive the material they pay for. A Comptroller General decision in July 1981 restated that agencies using accelerated payment procedures should have adequate internal controls to assure that they get what they pay for. 2/

1/See "The Federal Government's Bill Payment Performance is Good But Should Be Better" (FGMSD-78-16, Feb. 24, 1978).

2/GAO is currently making a comprehensive survey of the adequacy of Defense's internal controls over the receipt and acceptance of materials.

COC procedure

In addition to fast pay procedures, Defense expedites payments to vendors by accepting the vendor's COC in lieu of Government inspection at the designated place of acceptance. A contractor using the COC procedure certifies that the shipment of goods complies with all applicable requirements of shipment and conforms to quality, quantity, and other contract requirements. The Government adopted the procedure in view of the potential savings in carrying out its acceptance and quality assurance functions. For example, the COC procedure may be used where the Government's experience has shown that a contractor is reliable and that supplies would be replaced without contest in the event of defective shipments.

Unlike fast pay, the COC procedure does not include the 90-day right of redress for discrepant shipments. Instead, the Government must obtain redress by enforcing the specific and implied warranties in the contract.

As a general rule, the COC authorization in Army, Navy, and DLA contracts does not eliminate the requirement to obtain and base payment on acceptance documentation. 1/ Unless contracts specifically authorize payment based solely on a contractor-signed COC, such payment should not be made before receipt of the required acceptance documentation.

The Air Force, unlike the other services, generally authorizes payment based solely on a COC signed by a contractor. Separate acceptance documentation is not required for payment unless specifically included in contract provisions.

OBJECTIVE, SCOPE, AND METHODOLOGY

Preliminary work at two DLA supply centers indicated that the practices and procedures were not effective in controlling material shipments. Our objective was to examine center activities and internal controls to evaluate their effectiveness in ensuring that

--supplies and spare parts requisitioned by military services from DLA are received by those services and

--items purchased by DLA from vendors are received.

1/Acceptance documentation submitted by the vendor includes a signed COC and a material inspection and receiving report (form DD 250) or an order for supplies and services (form DD 1155). The signature of the quality assurance representative is generally required, although this may not necessarily entail physical inspection.

A major feature in DLA's inventory management practices is the use of discrepancy reports. To evaluate the appropriateness of supply centers' actions upon receipt of discrepancy reports, we reviewed policies and procedures for processing the reports; selected, at random, 200 discrepancy reports and traced them through the system to ascertain the appropriateness of action taken; analyzed delinquent due-in requisitions for shipments not received within the alloted time frame after the reported shipping dates; and discussed our findings with center personnel.

To determine whether discrepancy reports were properly prepared and forwarded to the centers, we visited 12 customers--four each from the Air Force, Army, and Navy--and 2 depots. In addition, we reviewed 15 discrepancy reports at each location to see if they were prepared promptly and processed properly and whether appropriate followup action was taken. We also (1) reviewed 15 requisitions for which each customer and/or depot had been provided shipping status but had not received the material and 10 orders where each customer and/or depot had been billed but the material was not yet received and (2) analyzed the actions taken, if any. Finally, we discussed the results of our review with appropriate officials at each activity visited.

Our review was conducted primarily at the following supply centers and DLA depots:

--Supply centers:
Defense Industrial Supply Center, Philadelphia, Pa.
Defense Personnel Support Center, Philadelphia, Pa.
Defense General Supply Center Richmond, Va.

--Supply depots:
Defense Depot, Mechanicsburg, Pa.

--Defense Depot, Richmond, Va.

We also obtained information from the following DLA customers:

--Army:
McDonald Army Hospital, Fort Eustin, Va.
Walson Army Hospital, Fort Dix, N.J.
Fort Dix, Wrightstown, N.J.
Aberdeen Proving Ground, Aberdeen, Md.

--Air Force:
Langley Air Force Base, Hampton, Va.
McGuire Air Force Base, Wrightstown, N.J.
McGuire Air National Guard, Wrightstown, N.J.
Dover Air Force Base, Dover, Del.

--Navy:
Naval Air Station, Oceana, Virginia Beach, Va.
Philadelphia Naval Shipyard, Philadelphia, Pa.
Naval Air Station, Willow Grove, Pa.
Naval Air Development Center, Warminister, Pa.

Our review was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

PRACTICES AND PROCEDURES DO NOT ENSURE IDENTIFICATION OF MATERIAL NOT RECEIVED OR RECEIVED DAMAGED

Our review disclosed that some supply centers were not following DLA procedures and practices for discrepant shipments and for identifying overdue shipments. As a result, the Government forfeits its rights to recover costs for discrepant shipments and overdue items are either written off as inventory losses or remain on supply records indefinitely. The overall effect is that the Government loses millions of dollars.

Specifically, the following deficiencies were identified at the DLA (wholesale) level:

--Procedures for identifying delinquent due-ins were not being followed. Thus, vendors were being paid for material not received.

--Prompt action against vendors to prevent loss of restitution rights for overdue paid shipments was not always taken nor were shipping discrepancies completely or promptly researched.

--Adequate procedures for the processing of discrepancy reports generally did not exist or were not followed, resulting in the loss of control of Government material.

--Available data was not being used to isolate problem areas.

Failure to follow up on material recorded as due in

Our review of 50 transactions regarding vendor shipments to depots showed that some supply centers did not follow DLA's procedures or guidelines for identifying overdue due-in material nor were they implementing followup procedures for items that were over 90 days late. As a result, overdue shipments of supplies and spare parts, costing millions of dollars, were either routinely written off as inventory losses or remained on the supply centers' records indefinitely as items due in.

As of June 30, 1981, DLA had over $9 million of shipments, already paid for, which had been overdue for more than 90 days. Of this amount, over $2.3 million had been overdue for over a year. As shown in enclosure II, all centers had overdue shipments which had been paid for under fast pay procedures or a COC. No attempt was made to determine what percentage would be written off as a loss or would remain on the records as due in.

Vendors were paid on the basis of an invoice and not on evidence that the items had been received. As mentioned on page 4, supply centers are responsible for identifying overdue shipments from vendors and for following up on such shipments to ensure that prompt and adequate action is taken to protect the Government's interest.

For overdue material which had been paid for under a COC, DLA officials could not explain why action had not been taken, or who was responsible for finding out the disposition of the material. They explained that, although they did not know whether or not the material had been received, they believed the majority of shipments probably had been received.

Prompt action not taken against vendors on material purchases under fast pay

None of the centers reviewed were taking prompt action against vendors for overdue shipments paid for under fast pay procedures. As shown in enclosure II, about $4 million of shipments, paid for under fast pay procedures have been overdue for over 90 days, and over $1 million of this has been overdue for over a year.

Unless vendors are notified of discrepant items within 90 days after shipment, the Government forfeits its right of recovery. Procurement officials at one center (DGSC) estimated that the 90-day time frame had expired on 85 percent of its fast pay items. As of June 30, 1981, DGSC had nearly 1,200 shipments, valued at about $1 million, that were over 90 days late.

According to a DGSC official, a large number of shipments over 90 days old existed because the materials were either

incorrectly processed when received or lost in shipment. But the official did not know whether or not the material had been received. This center had not implemented followup procedures for items over 90 days old nor did it have a periodic write-off procedure, therefore, it is possible for questionable shipments to remain outstanding indefinitely. However, some shipments were written off as lost. From October 1980 through June 1981, DGSC wrote off at least 1,405 overdue shipments valued at $847,438 and 361 received, but lost in the depot, valued at $772,497. We could not determine what portion of these shipments had been paid for under fast pay procedures. Also, although an official told us that the center investigates the oldest overdue shipments first, we found that DGSC officials had overlooked four shipments, totaling almost $10,000, ranging in age from approximately 2 to 4 years old.

At DPSC, personnel either could offer no explanation for lack of follow up or gave inadequate reasons to justify their lack of action. They stated, for example, no action was taken against a vendor for overdue material costing over $27,000 because the depot was not in short supply.

As shown in enclosure II, all centers have large dollar amounts of shipments already paid for, but which records show have not been received. DLA apparently has lost control over these materials and can no longer seek recovery from vendors.

Except for DGSC, our review disclosed no actions being taken by the centers to correct this situation. In June 1981 DGSC established a computerized form letter for overdue shipments paid under fast pay procedures. This certified letter informs the vendor within the 90-day standard that the material has not been received and requests the vendor to furnish proof of delivery. Unless proof is provided, the vendor is to replace the material at its expense.

Discrepancy reports not promptly nor properly processed

Within 30 days of receipt of a discrepancy report, supply centers are supposed to advise the submitting activity of action to be taken based on that report. For example, if damaged goods are received, an overage occurs, or erroneous or deficient material is shipped, the supply center is to provide disposition instructions for that material and, if warranted, initiate inventory adjustments.

Untimely and improper processing of discrepancy reports can result in a loss of control of material, lost recovery rights, and material remaining in a questionable status for long periods of time. At DISC, discrepancy reports were being properly processed but were not properly handled at DGSC and DPSC.

For example, at DGSC we found that customer reports were not being processed within the 30-day standard established by DLA. Reports were processed anywhere from 5 to 220 days beyond the allowed time frame. Of these, the center sent no interim replies informing customers of the status of their reports. Center personnel stated that their workload is too heavy to adhere to the 30-day processing standard. They stated that most reports usually are not processed until they are at least 30 days old and are not assigned a high priority until they are 120 days old. The following table shows the status of open discrepancy reports at DGSC as of March 31, 1981:

No.	Age (days)
320	over 180
75	161-180
105	141-160
147	121-140
216	101-120
186	81-100
338	61-80
940	31-60
2,317	0-30

Depending on the type of deficiency identified, discrepancy reports can indicate a need for the depots to take a physical inventory of the item and for the item manager to adjust the inventory records as a result of that inventory. Physical inventories are required when a discrepancy is valued at over $500, or if the report shows that a wrong item was received. Also, while a report of damaged goods may not require adjustment to inventory records, reports of inaccurate quantities or wrong items accepted by the customers could require records adjustments. Physical inventories are not being taken as required, consequently;inventory records are not being adjusted.

Of the 85 reports reviewed at DGSC, 11 required physical inventories. But the center had requested the depot to inventory only three items. Of the 90 reports reviewed at DPSC, 14 required that the items be inventoried, but the center had requested only three.

The purpose of a physical inventory is to provide item managers with data so that the national inventory record accurately reflects the onhand balance. Since inventories have not been taken and needed adjustments have not been made, the onhand balances will remain incorrect until a physical inventory is taken and adjustments are made.

In addition to the adverse effect on operations when needed material is not available because of the inaccuracy of records, monetary losses can be incurred. At DPSC, for example, we found that two reports submitted by customers showed nonreceipt of

direct vendor shipments. When the supply center questioned the vendors, both vendors stated they had no record of having received the purchase orders. On the basis of these statements, the center gave credit to the customers, told them to reorder the items, and closed out the discrepancy report files with no additional action. We reviewed these reports and found that although the vendors stated they had not received the purchase orders, the supply center had copies of contract files and evidence that it had paid $1,948 to them. However, due to inadequate followup action on both of these cases, the Government apparently paid for material that it did not receive.

Discrepant shipments not properly researched to identify causes and prevent recurrence

Generally, DLA discrepancy reports are not analyzed to identify causes of problems for taking corrective actions to prevent recurrence of discrepancies. DLA regulations state that material discrepancy reports are submitted for just such a purpose. The report is designed so that the data can be analyzed to evaluate and improve supply operations. Further, DLA requires each supply center to implement a system of collecting reported discrepancy data as part of a quality evaluation program for providing management data to detect problem areas. According to DLA officials, depots should determine the validity of a reported discrepancy, attempt to determine the cause for valid discrepancy claims, and analyze identified causes to prevent recurrences.

Of the three centers visited, only DISC performed any type of analysis to identify trends in reported deficiencies and to take corrective action. DGSC and DPSC collected such data but did not use it to any great extent.

As part of its quality evaluation program, DGSC issues many local reports that provide various information on customer/depot complaints and vendor performance. However, the center does not use these reports to identify customers who report many shipping discrepancies. Officials believe that such research would not be cost effective and is not needed. For the most part, the center relies on its people to use these reports to identify problem areas with vendors. According to officials, however, these reports are rarely used to counsel vendors or deny contract participation.

DGSC does analyze customer reported material losses attributable to a specific depot by developing monthly data on credits given customers for the depots stocking its items. These reports are sent to the appropriate depots for their use. According to DGSC depot officials, these reports are used only for informational purposes, not for recommending corrective action. Therefore, changes have not resulted in depot operations because of these reports.

The DGSC depot generally does not research customer discrepancy reports to determine the causes of discrepancies to prevent recurrence of problem areas. In determining final disposition of a customer's complaint, a DLA supply center may request assistance from a depot. The depot's investigation, however, is limited to answering specific questions.

At DPSC, where a limited trend analysis was made, credits averaging $122,648.65 a month for the third quarter of fiscal year 1981 were given to customers for shortages of material shipping-type discrepancies. The average monthly authorized credits given to customers for this same period for parcel post discrepancies totaled $60,711. However, no additional work was done by DPSC personnel to determine the causes for the material shortages.

In our opinion, the failure to identify causes and prevent recurrence of reported discrepancies perpetuates conditions of loss of control of Government material and payments to vendors for material not received.

DLA CUSTOMERS DO NOT ADEQUATELY REPORT DISCREPANT SHIPMENTS

Of the 12 customers visited, only the 4 Air Force activities had procedures to review and take action on overdue requisitions, namely report them to DLA. However, Air Force customers were not always following the activities' procedures. For example, one Air Force customer was not reporting all overdue shipments nor were the Air Force customers reporting discrepancies for concealed shortages. In addition, only 8 of the 12 customers visited were reporting discrepancies between $50 and $100 and 3 of these customers were not reporting discrepancies in a timely manner.

DLA regulations require customers to report all discrepant shipments of DLA stocks with an item value in excess of $50. This minimum does not apply to vendor shipments, receipt of wrong materials, unacceptable substitutes, duplicate shipments, and misdirected shipments. In these instances, customers are required to report discrepancies, regardless of the dollar amount, within 15 days of receipt. Also, joint service regulations require customers to report overdue shipments within 60 days from date of vendor shipments and 70 days from the date of depot shipments. As noted on page 4, DLA advises customers when items are shipped.

The overall effect of these conditions is that DLA customers are being charged for material they did not receive and that DLA is not being provided with data necessary to identify causes for discrepant shipments to customers.

In the case of vendor shipments to customers, the Government has already paid for many of the items under fast pay procedures.

As noted on page 5, vendors must be notified of discrepant shipments within 90 days from date of shipment. Since customers have not properly reported discrepancies to DLA, the Government has forfeited its right to recover from vendors.

Most of the customers visited were not reporting shipping discrepancies for items valued between $50 and $100. According to the customers, there is no incentive to report such discrepancies because DLA supply centers will not give them credit for the items. None of the customers visited had any idea of the total value of these shortages and, since customers were not reporting such shortages to supply centers, the magnitude of the problem could not be determined.

Concerning overdue material, of the customers visited, only the Air Force had established procedures to take action on such shipments. The Army and Navy had no such procedures and, of the eight Army and Navy customers visited, none had reported overdue material to DLA.

We were unable to identify the overall quantity of items DLA had paid for but had not received because some of the customers did not separate overdue DLA-managed items from other stock fund items due in. For example, as of April 30, 1981, the records of one customer--Naval Air Station, Oceana, Virginia--showed a total of over $1.9 million of stock fund material due in from all sources. We considered it impractical to identify the total quantity of items due in from DLA. However, we did verify that customers' due-in accounts included overdue shipments from DLA.

Also, many of the customers' records did not show how long the material had been due in. In those cases, customers were unable to tell us whether a shipment was 6 or 60 days overdue, or even longer. However, three of the customers visited--one Army and two Navy--did age their due-in accounts. One of these showed material valued at over $288,000 due in for 60 days; another showed material valued at over $585,000 due in for over 90 days; and the other showed material valued at over $550,000 due in for over 121 days. While these amounts included material due in from all sources, we verified that they also included shipments from DLA. These large amounts of old, overdue shipments indicate either inadequate supply support by supply depots or items shipped but not received. As noted above, none of the Army and Navy customers had notified DLA of any overdue material.

If overdue shipments are not resolved, customers are allowed to delete such shipments from their records and to write off the material as lost. For example, during the first half of fiscal year 1981, three Army customers visited had written off material valued at $115,600.

Although the Air Force had procedures to review and take action on overdue shipments, they were not always being followed. For example, Langley Air Force base was not monitoring the status

of items billed but not received. In a sample of ten cases where overdue items should have been reported, nine were not. These nine shipments were overdue for periods ranging from 212 to 465 days. Also, Air Force activities were not reporting shipping discrepancies for container shortages. This situation occurs when several requisitions are shipped in a single container which is signed for without checking the container's contents. Container shortages are not reported to DLA. After acknowledging receipt of material that is later discovered missing, the Air Force writes off the items as inventory losses. During the first half of fiscal year 1981, two Air Force customers wrote off over $42,000 of material resulting from container shortages.

When customers did report shipping discrepancies to DLA, they generally did not do so in a timely manner. For example, our review of 45 discrepancy reports prepared by 3 DLA customers (1 Army, 1 Air Force, and 1 Navy) disclosed that 21 were initiated beyond the time standards. Many were filed after 100 days had elapsed. Of the other 24 discrepancy reports, only 11 were filed within time limits. We could not determine the timeliness of the remaining 13 because of incomplete customer records.

As previously noted, under fast pay procedures, vendors must be notified of discrepant shipments within 90 days of shipment or the Government forfeits its right of recovery.

CONCLUSIONS

DOD's practices and procedures for identifying, reporting, and correcting discrepancies in the issuance and shipment of DLA stock fund material need improvement. Current practices and procedures do not ensure that (1) the Government is receiving the material it has paid for, (2) DLA supply centers adjust related records for valid shipping discrepancies, and (3) the supply centers analyze reported discrepancies to identify and correct problem areas.

From the standpoint of the shipper, we believe that DLA's and the locally published instructions for controlling material shipments are generally adequate. However, there are some weaknesses in the processing and review controls, in establishing work priorities and in assessing problem areas. In our opinion, the primary cause of deficiencies is the failure of Defense activities to implement these instructions. This is evidenced by the fact that discrepancy reports at DISC were being processed properly and, although slow at times, followup action was taken in all cases. If DISC can implement DLA procedures and establish controls over discrepancy reporting and followup action, it would seem that all centers could do likewise.

From the standpoint of customers, only the Air Force has established procedures to advise DLA of overdue shipments. Army and Navy customers visited had no such procedures and consequently

cont

do not advise DLA of overdue shipments. Also, Air Force customers do not advise DLA of discrepant items included in container shipments. In addition, the majority of customers visited did not report discrepancies between $50 and $100.

To ensure that the Government receives what it pays for, DLA must be advised of material discrepancies.

ENCLOSURE II

MATERIAL PAID FOR WITH NO EVIDENCE OF RECEIPT (note a)

AS OF JUNE 1981

(Dollar value in Thousands)

Days in transit	DCSC Lines	DCSC Dollars	DESC Lines	DESC Dollars	DGSC Lines	DGSC Dollars	DISC Lines	DISC Dollars	DPSC (note b) Lines	DPSC (note b) Dollars	Total Lines	Total Dollars
Fast pay:												
91-120	149	$ 73.1	271	$166.8	160	$ 104.6	613	$ 312.4	6	$15.4	1,199	$ 672.3
121-180	175	91.7	339	147.5	212	138.8	861	385.7	3	.9	1,590	764.6
181-360	235	128.1	469	267.7	410	402.5	2,034	684.5	5	7.2	3,153	1,490.0
Over 360	81	79.6	154	112.8	400	394.8	1,658	417.9	39	2.6	2,332	1,007.7
Total	640	372.5	1,233	694.8	1,182	1,040.7	5,166	1,800.5	53	26.1	8,274	3,934.6
COC:												
91-120	5	9.8	7	.9	91	633.4	137	423.4	-	-	240	1,067.5
121-180	11	67.2	10	7.0	124	814.5	161	370.4	-	-	306	1,259.1
181-360	40	136.7	20	13.7	177	1,273.8	94	42.7	-	-	321	1,466.9
Over 360	5	105.0	12	10.7	200	1,055.4	177	133.2	-	-	394	1,304.3
Total	61	318.7	49	32.3	592	3,777.1	559	969.7			1,261	5,097.8
Recap:												
Fast pay	640	372.5	1,233	694.8	1,182	1,040.7	5,166	1,800.5	53	26.1	8,274	3,934.6
COC	61	318.7	49	32.3	592	3,777.1	559	969.7	-	-	1,261	5,097.8
Grand total	701	$691.2	1,282	$727.1	1,774	$4,817.8	5,725	$2,770.2	53	$26.1	9,535	$9,032.4

a/Defense Fuel Supply Center not included as it does not use fast pay or COC.

b/Includes only fast pay totals for the medical directorate. Information relative to and pertaining to Subsistence and Clothing and Textile directorates was not available.

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